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Beneath the Surface: The Imminent Release of DeepSeek V4

Chinese AI giant DeepSeek has been teasing the release of its latest model known as V4 since January 2026. This iteration is rumored to be capable of outperforming competitor models like Anthropic's Claude and OpenAI's ChatGPT. If past is prologue, though, there is a high likelihood that V4 will have

been trained by scraping results from these same competitor models via knowledge distillation.

- V4 is expected to be a "multimodal" model with picture, video, and text-generating functions, according to media reports.¹ If true, this would be an upgrade to its previous text-only models, though this development is unsurprising given that other Chinese AI companies like Alibaba and Moonshot have already entered the multimodal model space in the past few months.²

- V4 is rumored to be optimized specifically for coding and long-context software engineering tasks. DeepSeek’s internal testing reportedly shows V4 outperforming Claude 3.5 Sonnet and GPT-4o on coding benchmarks; however, these claims have yet to be verified by third-party benchmarkers.³ As with previous DeepSeek models, V4 is also expected to dominate Chinese language benchmarks.⁴
- In recent months, both OpenAI and Anthropic have accused Chinese companies, including DeepSeek, of training their new releases on the backs of the U.S. models via a technique known as “distillation.” Distillation is a tactic that involves training a less capable model using the outputs of stronger models. While it can be a legitimate training method, Chinese companies are using fraudulent accounts and proxy services to engage in coordinated, large-scale “distillation attacks” on U.S. frontier models, allowing them to bypass safeguards and effectively circumvent U.S. export controls.⁵
- Despite the desire to move away from a reliance on Western technology, other leading Chinese AI labs such as Moonshot, Minimax, and Z.ai (formerly known as Zhipu AI) have also been accused of large-scale model distillation as a means to develop their high-performance models.⁸ Chinese leadership have yet to apply the same pressure on model training methods as they have on using domestic hardware, and thanks to the success of these high-performance models over the past year, it is likely that DeepSeek’s next iteration will make use of the same methods.

China’s 15th Five Year Plan: Taking Stock and Setting Future Policy

In March 2026, China’s National People’s Congress approved the “Outline of the 15th Five Year Plan (2026-2030) for National Economic and Social Development of the People’s Republic of China,” commonly referred to as the 15th Five Year Plan (FYP).⁹ These plans are a vital component of the country’s policy-making process; prior plans have enshrined support for whole-of-government efforts such as Made in China 2025 and “dual circulation” that put in place numerous government policies designed to make China self-sufficient in technology.¹⁰

DeepSeek’s strategy reflects a paradox: China is attempting to localize “the stack” by allegedly relying solely on domestic AI chips, while its high-profile AI companies simultaneously depend on knowledge extracted from Western frontier models like Claude and ChatGPT via distillation.

- On the hardware side, DeepSeek purportedly relied on advanced semiconductors from Chinese AI chipmakers Huawei and Cambricon.⁶ This would be notable given the speculation surrounding the development of DeepSeek’s breakthrough R1 model in January 2025. Industry reporting claimed that after DeepSeek trained its R1 model using NVIDIA hardware, Chinese authorities attempted to push DeepSeek to rely on domestic alternatives for training its R2 model. However, in turning to Huawei’s Ascend platform, DeepSeek purportedly ran into several issues, including unstable performance, slower chip-to-chip connectivity, and limitations with Huawei’s CANN software toolkit.⁷
- China’s FYPs set both specific targets and broader policy goals across the economy, defense, technology, and society for national ministries and lower levels of government.¹¹ FYPs have traditionally allowed local governments some leeway to tailor central guidance to local development priorities.¹² Each new five-year plan triggers a cascading wave of provincial and local plans, targets, and reviews that provide more concrete policies.¹³
- The 15th FYP maintains much of the messaging and policy priorities of the prior FYP, reflecting Xi Jinping’s focus on industrial modernization,

innovation, and state security.*¹⁴ Since taking the helm in 2012, Xi has consolidated his power within the party and purged high-ranking leadership of potential rivals under the guise of an ongoing anti-corruption campaign.¹⁵ This consolidation of power helps explain the high degree of continuity from the 14th FYP and potentially signals shrinking space for feedback from other central and local officials to inform high-level policy making.[†]

FYP Policies Still Favor Supply-Side Growth

Beijing recognizes that traditional investment-led growth engines are sputtering, reflected in its 4.5–5 percent GDP growth target (the lowest since 1991).¹⁶ Yet, the 15th FYP once again fails to embrace consumption-based rebalancing of China’s economy. Instead, it continues to prioritize building a “modern industrial system” for advanced manufacturing in alignment with the Party’s overarching geopolitical objective of technological self-reliance.

- The 15th FYP features many previously introduced development concepts that, in combination, represent even greater emphasis on “high-quality development,” which is a slogan for a focus on innovation and productivity gains rather than broad-based economic growth.¹⁷ Since the implosion of the real estate market in 2022, China has relied on export-oriented manufacturing to offset weak domestic demand. Sustained investment in industrial production concurrent with stagnant demand has resulted in

massive overcapacity, unleashing a worldwide “China Shock 2.0.”¹⁸ Although the FYP presents both supply-side and demand-side policy, priority is given to the former under Xi’s “new development philosophy,” which seeks to apply technology across existing production processes and to develop “future industries” to achieve total factor productivity gains.¹⁹ Chinese policymakers are betting on these “new quality productive forces” to continue growth amid diminishing returns to both labor and capital.²⁰

- Developing a “modern industrial system” is one of the few newly introduced concepts in the FYP, which prioritizes the “real economy”[§] in national development in order to cement China’s position as an advanced manufacturing powerhouse.²¹ To address involution,** the FYP seeks to standardize local government regulation, decrease local protectionism, and facilitate movement of factors of production throughout a “national unified market.”²²
- China’s plan outlines few new policy measures to boost household consumption beyond schemes that address the problem at the margins. The document recycles recent programs, such as subsidies for durable goods and domestic tourism, while adding new language on enforcement of paid leave.²³ The plan labels domestic consumption efforts as “investment in people” and “common prosperity” while still reflecting a fundamentally supply-side approach focused on firm profitability as a necessary condition for raising household income and spending.²⁴ The plan lacks more robust measures to combat deflation and shore up consumer

* The plans are issued in a cadence that is offset from the timing of major leadership changes to help ensure policy continuity.

† For more on how Xi Jinping restructured the decision-making process within the CCP to augment his authority to drive China’s policy agenda, see U.S.-China Economic and Security Review Commission, Chapter 1, “CCP Decision-Making and Xi Jinping’s Centralization of Authority,” in *2022 Annual Report to Congress*, November 2022, 25–120.

‡ For more on the global impacts of Chinese excess industrial production, see U.S.-China Economic and Security Review Commission, Chapter 8, “China Shock 2.0,” in *2025 Annual Report to Congress*, November 2025, 429–471.

§ The “real economy” refers to industries such as manufacturing, construction, agriculture, and some service industries as opposed to the financial sector.

** Involution (内卷) is the word Chinese authorities use to refer to aggressive price cutting by Chinese firms in their effort to grow or retain market share. Due to market distortions in China’s economy, “involution” occurs between firms within subsidized industries that are increasing production despite insufficient demand, lowering profitability for all.

confidence, such as major fiscal stimulus or support for the real estate sector.²⁵

- Despite repeated claims by Chinese officials that China is committed to further opening its economy, the 15th FYP differs from prior plans by de-emphasizing “reform and opening up.”²⁶ The 15th FYP only makes one mention of the concept—and even then only in narrow reference to the services sector.²⁷ This is a notable drop-off from the seven references in the 14th FYP.²⁸ The change reflects the 15th FYP’s focus on self-reliance and overcoming strategic chokepoints in external economic relations.²⁹

China’s “New Frontier” for Science and Technology Gets More Specific with Bigger Ambitions

The 15th FYP sharpens China’s technological ambitions while navigating geopolitical and domestic structural challenges.

- China has once again identified artificial intelligence (AI), quantum technology, nuclear fusion, life sciences and biotechnology, brain science, clinical medicine, deep sea, and deep space exploration as frontier technologies.³⁰ Compared to the 14th FYP (2021–2025), China’s updated technology objectives signal a transition toward more specialized and sophisticated ambitions. While the 2021 focus was broadly on quantum information science, for example, the scope has now expanded to encompass a wider breadth of quantum technology, including computing, information, and sensing. Rather than merely pursuing general prototypes, China is now specifically targeting the construction of an “integrated quantum communication network

linking space and ground systems, developing fault-tolerant general-purpose quantum computers and scalable specialized quantum computers, and achieving breakthroughs in key technologies for high-precision quantum measurement.”³¹ Similarly, deep-sea and deep-space exploration, once grouped together, are now distinct domains with clearer objectives, including habitat mapping, ocean drilling, and planetary exploration.³²

- The 15th FYP lays out China’s technology strategy, with AI at its core. The plan mentioned AI over 50 times—a significant uptick from the preceding 14th FYP and notably more than mentions of other tech categories or priorities.³³ In the next five years, Chinese leadership sees AI as a solution to China’s most pressing structural challenges—from slowing growth to demographic decline—placing it at the center of the country’s digital economy agenda.³⁴ This includes advancing China’s AI capabilities and adoption throughout society, and supporting an open-source AI ecosystem—priorities the Chinese leadership already articulated in previous policy efforts such as the 2017 Next Generation AI Development Plan, the 14th FYP, and the 2025 AI+ Initiative.³⁵
- While the plan builds on a series of earlier strategic frameworks, it is notably more specific in technical language, reflecting the rapid pace of AI development and possibly a more technically literate leadership. The plan singles out “multi-modality, intelligent agents, embodied AI, and swarm intelligence” as distinct technical pathways to reach the frontier.³⁶ This language tracks closely with recent industry developments: Alibaba has released a series of Qwen multimodal open models; Manus—an AI agent startup with Chinese roots—has risen sharply in international popularity; and Chinese embodied AI companies

* First introduced under Deng Xiaoping in 1978, “reform and opening up” has been a key development concept used consistently by Chinese leadership to introduce and expand market-based engagement with the rest of the world. Charles Parton, “Understanding Xi Jinping’s ‘Reform and Opening Up,’” *Council on Geostrategy*, September 17, 2024. <https://www.geostrategy.org.uk/research/understanding-xi-jinpingsreform-and-opening-up/>.

raised 20 billion RMB (\$5 billion) in the first two months of 2026.³⁷

As a [recent Commission Research Working Group report found](#), Chinese leadership aims to build AI capabilities and embed them in China’s economy in ways that could offset its structural weaknesses and erode U.S. advantages.

- The plan suggests strong emphasis on basic research, particularly calling for multiple pathways to reach general AI (GAI)—a system broadly capable and generalizable across various use cases.³⁸ Chinese leadership now shares this view with China’s leading scientists who believe multiple methods such as embodied AI, multimodality, or brain-inspired AI are the strongest technical pathways to the frontier of AI.³⁹ Chinese leadership is not only hedging across technological approaches but also counting on advances in one domain to drive compounding gains across others. In promoting basic research in AI, the plan also supports both the development of general large models and industry-specific models.⁴⁰ This deliberate hedge, given U.S. export controls on advanced semiconductors, is likely designed to address China’s compute-constrained environment. Chinese leaders also believe, pushing Chinese AI labs to train smaller, specialized models could lead to greater global adoption. Alibaba’s Qwen 1.5-0.5B, for example, is a small model that had spawned the most derivative models on Hugging Face as of January 2026.⁴¹
- The plan deepens the visions laid out in the 2025 AI+ Initiative, calling for AI integration across priority areas such as science and technology, industrial development, and consumer quality upgrading.⁴² It envisions AI converging with other technologies such as quantum, life sciences, new materials, new energy, and 6G, leveraging technical advances in one sector to catalyze breakthroughs in another.⁴³ The plan also targets AI-driven productivity gains across sectors such as manufacturing, financial, health, agriculture, and logistics.⁴⁴ At the center of this strategy is

high-quality data viewed by Chinese leadership as “a factor of production,” a core economic input similar to labor or capital, to drive innovation and adoption.⁴⁵

China Says World Faces “Intertwined Turmoil and Intensified Instability” as It Outlines National Security Goals

In the 15th FYP, Chinese policymakers direct agencies to prepare for a period in which “strategic opportunities coexist with risks and challenges.”⁴⁶

- The 15th FYP strikes a noticeably darker tone on the global outlook than the two previous FYPs overseen by Xi. While the 14th FYP warned of rising instability, it still stated that the era was defined by “peace and development.”⁴⁷ The 15th FYP drops this language entirely and bluntly states that the “great power game is becoming more complex and intense.”⁴⁸ Although the 15th FYP is mainly an economic blueprint, it embeds security objectives throughout, emphasizing technological self-sufficiency, supply chain security, stockpiling, and mitigation of economic risks.
- The plan suggests Beijing is absorbing lessons from ongoing global conflicts. Reflecting China’s experience with secondary sanctions—as well as concerns about the comprehensive sanctions placed on Russia after it invaded Ukraine—the 15th FYP states that China will “strengthen the fight against sanctions, intervention, and ‘long-arm jurisdiction.’”⁴⁹
- As new innovations transform battlefields, China aims to accelerate the People’s Liberation Army’s (PLA) integration of new technologies, the transfer of civilian technologies to military use, and the harmonization of civilian and military

standards.⁵⁰ Specifically, the plan points to a future battlefield dominated by drones, prioritizing the development of unmanned, intelligent combat systems and countermeasures. Advances in embodied AI and the “low-altitude economy” discussed elsewhere in the plan will likely help drive these efforts.⁵¹

- Xi Jinping has continued to lead major purges of the PLA, driven at least in part by corruption in its procurement system.⁵² The plan addresses this issue with measures to tighten budget control, improve procurement and oversight, and strengthen political discipline, aiming to ensure corruption does not derail modernization.⁵³

FYP Has No Solutions for Fiscal Crunch

The 15th FYP does not provide new solutions to China’s fiscal constraints, even as fiscal revenue fell for the first time and the government increasingly relies on shrinking sources of revenue.

- In 2025, China’s general public budget revenue* declined for the first time in over 30 years (outside the COVID-19 pandemic).⁵⁴ China’s aggregate deficit—combining central and local finances across all four budgets—is now a record 9 percent of GDP.⁵⁵ This is a result of falling producer prices and property values that put downward pressure on China’s largest sources of tax revenue, as well as declining land sales.⁵⁶ As these are structural trends, downward pressure is likely to continue in 2026.⁵⁷
- Beijing relied to a record extent on state-owned enterprise (SOE) profits to fund government

spending. In 2025, SOE transfers to government budgets increased by 55 percent, accounting for 2.7 percent of general public budget revenue—the highest share on record since 2010.⁵⁸ However, China likely has limited space to further increase SOE transfers, since these constrain the ability of SOEs to service debt and fund investment.⁵⁹ Further, SOE profits fell 6.3 percent year-over-year.⁶⁰

- The 15th FYP does not introduce major policy changes to deal with China’s fiscal challenges. China’s local and provincial governments have large unproductive debts, shrinking sources of revenue, and limited capacity to substantially raise revenue absent central government approval.[†] ⁶¹ Rather than tackling any of these challenges directly, the 15th FYP focuses on developing long-term debt management mechanisms, increasing revenue collection from SOEs and local tax sources, and increasing the central government’s share of total government expenditures (currently around 15 percent).⁶² Beijing’s failure to address its fiscal challenges means China will need to lean more and more heavily on exports over growth in consumption, investment, or government spending to fuel economic growth.⁶³

* The general public budget is the largest of China’s four national budgets. The other three are the social insurance fund budget (i.e., pensions, medical insurance), the government funds budget (i.e., land sales revenue, infrastructure expenditures), and the state capital operations budget (i.e., SOE revenues and redistributions). Brian Hart et al., “Making Sense of China’s Government Budget,” *Center for Strategic and International Studies China Power Project*, March 26, 2026. <https://chinapower.csis.org/making-sense-of-chinas-government-budget>.

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